

Facing the Challenges of African Growth

**Opportunities, Constraints and Strategic
Directions**

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A decorative graphic consisting of several sets of concentric circles in a lighter shade of blue, scattered across the bottom half of the slide. The circles vary in size and are positioned in the lower-left, lower-center, and lower-right areas.

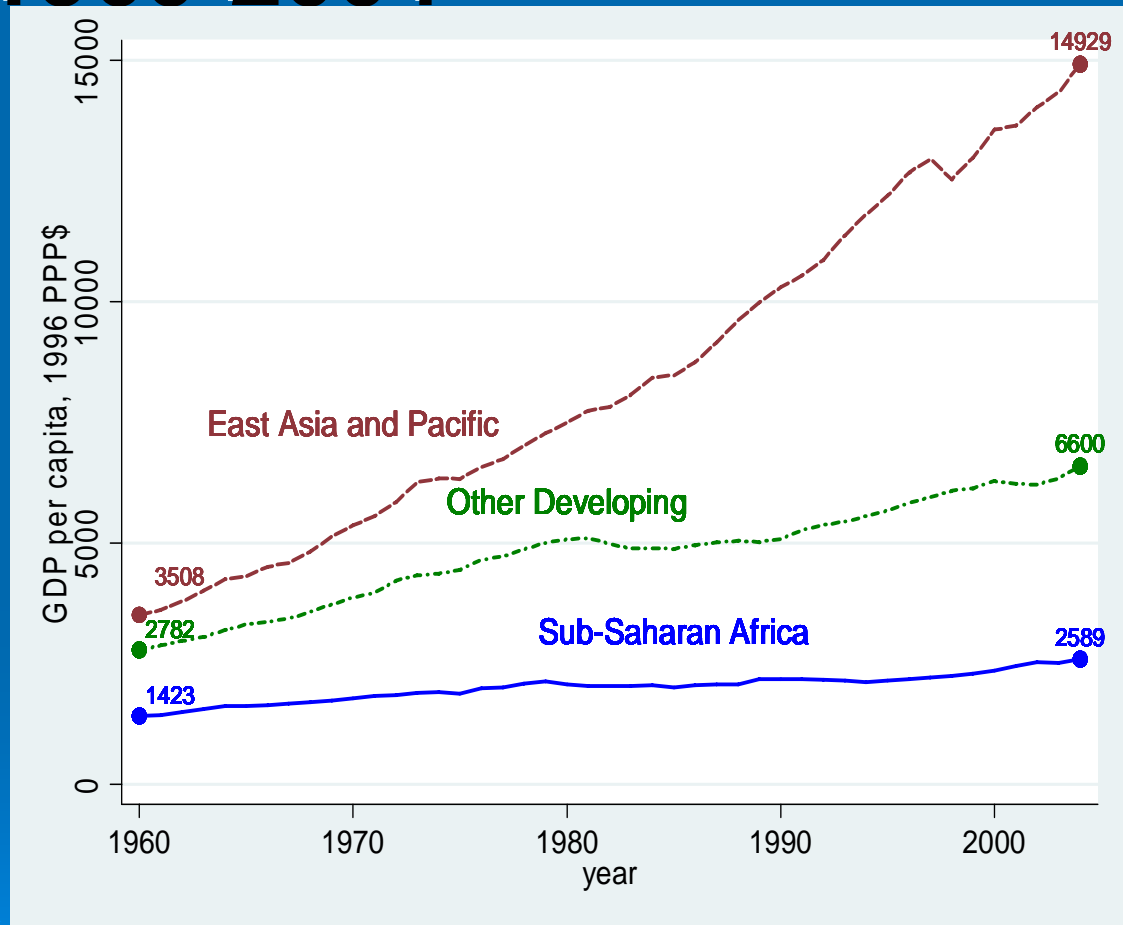
Poverty in Africa, is largely a growth challenge

- 10 percent of the world's population, but 30 percent of the world's poor.
- Extreme poverty in Africa has increased from 36% of the population in 1970 to around 50% in 2000.
- Nearly one in two Africans (300 million people in total) is poor: spending less than 1\$ a day on basic necessities of life.

Divergence in growth of incomes: from other regions

1960-2004

- Per capita income in Africa grew at 0.5% in contrast to 2.5% for other developing regions.
- Even after adjusting for differences in purchasing power
 - p.c. income, was about half that of EAP in 1960
 - by the end of the 20th century, it was less than one-fifth of EAP



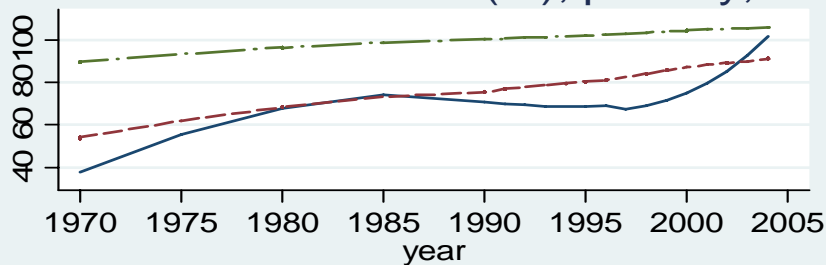
Data source: The World Bank WDI database.

Note: GDP per capita in 1996 international dollars

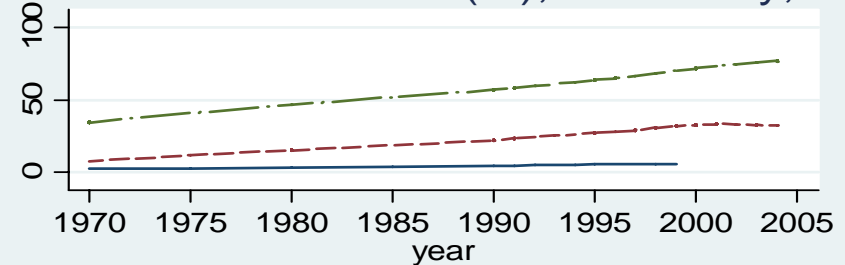
Human Development Indicators

Human Development

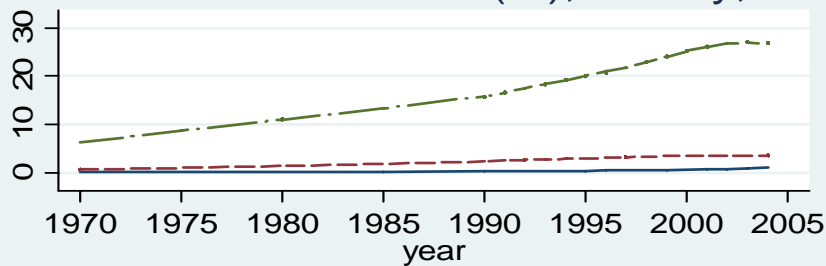
Gross enrollment rate (%), primary, total



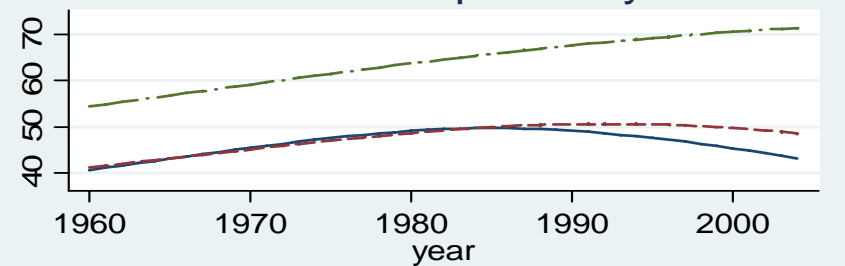
Gross enrollment rate (%), secondary, total



Gross enrollment rate (%), tertiary, total

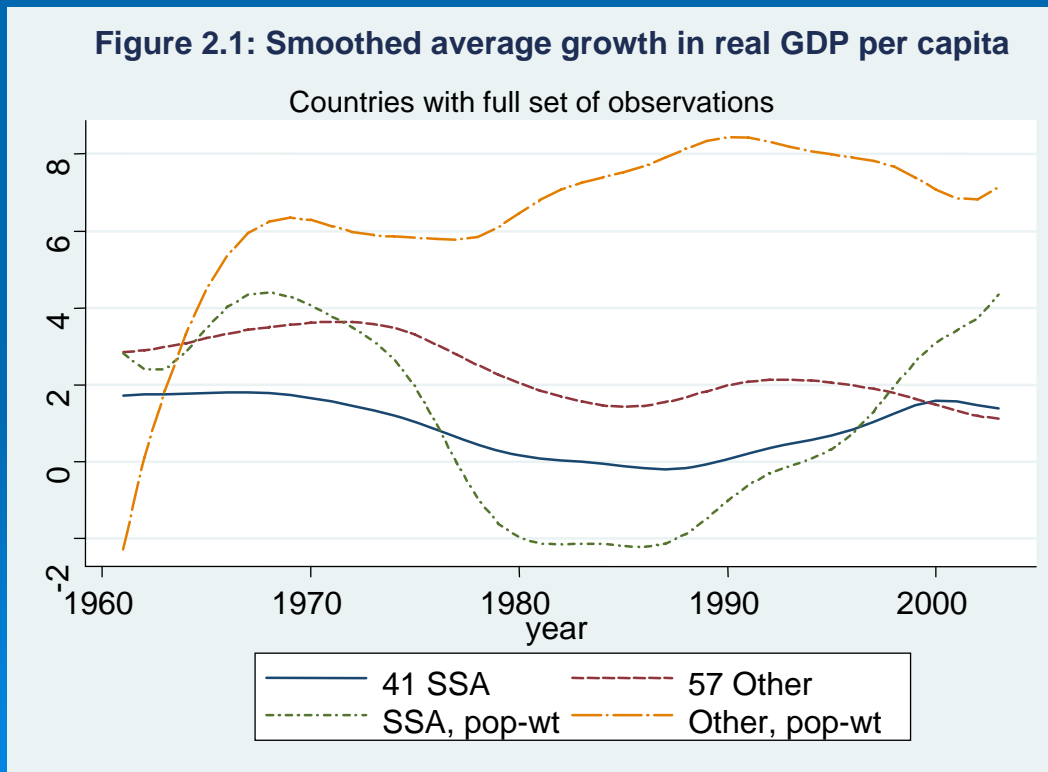


Smoothed Life Expectancy at Birth



African Countries – Missed out on two decades of global growth

Growth Path 1960-2004

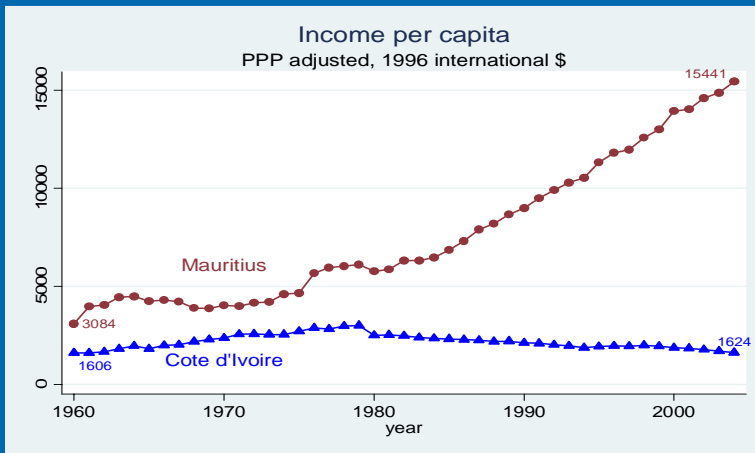


Six Key Conclusions from Half a Century of African Growth experience

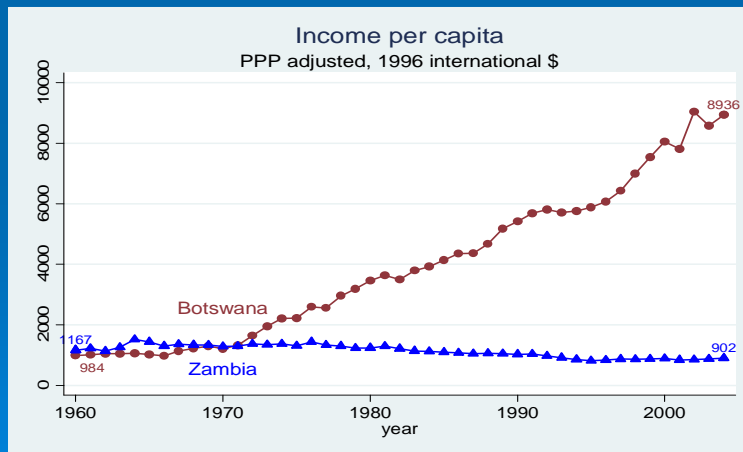
(i) African countries growth experience is extremely varied and episodic –

- ◆ **large countries (DRC, Nigeria, Ethiopia, Sudan) grown more slowly**
- ◆ **extreme instability of growth for most countries - esp. resource –rich**
- ◆ **suggests focus on large countries for spillovers (e.g Southern Africa) and management of responses to shocks**

Same Endowments - Different Paths - Different Outcomes

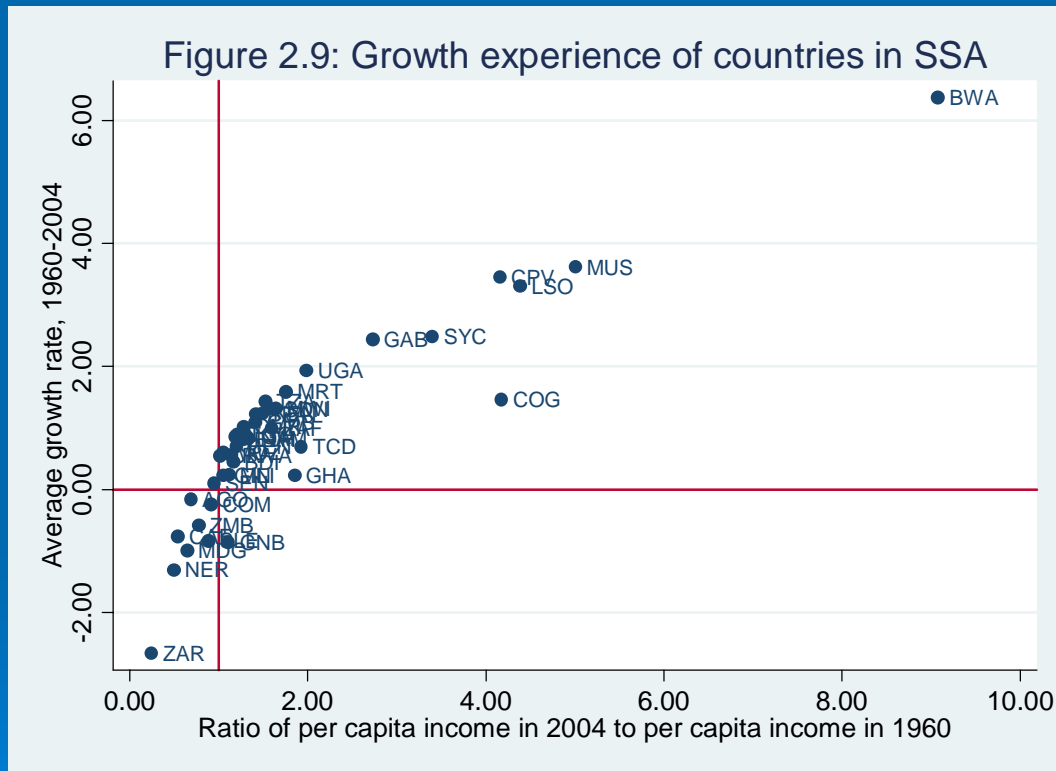


- Cote d'Ivoire and Mauritius are both coastal and resource poor countries
- pursued very different development paths
- with very different outcomes.



- Zambia and Botswana are both landlocked and resource rich
- Pursued different approaches to managing resource rents
- To very different results

Diverse Growth Experience and Results: 1960-2004



- Per Capita Income in Nine countries in 2004 < that in 1960
- 13 middle income countries have incomes in 2004 between 60% (SA) and 9 fold (Botswana) the levels in 1960

Lessons cont'd

(ii) slower productivity growth more sharply distinguishes African growth from other regions

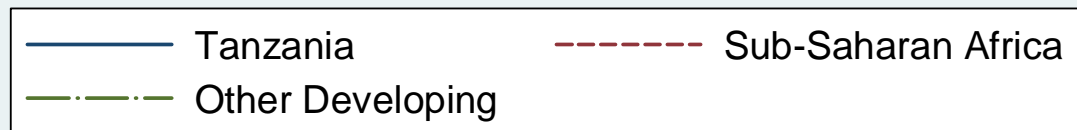
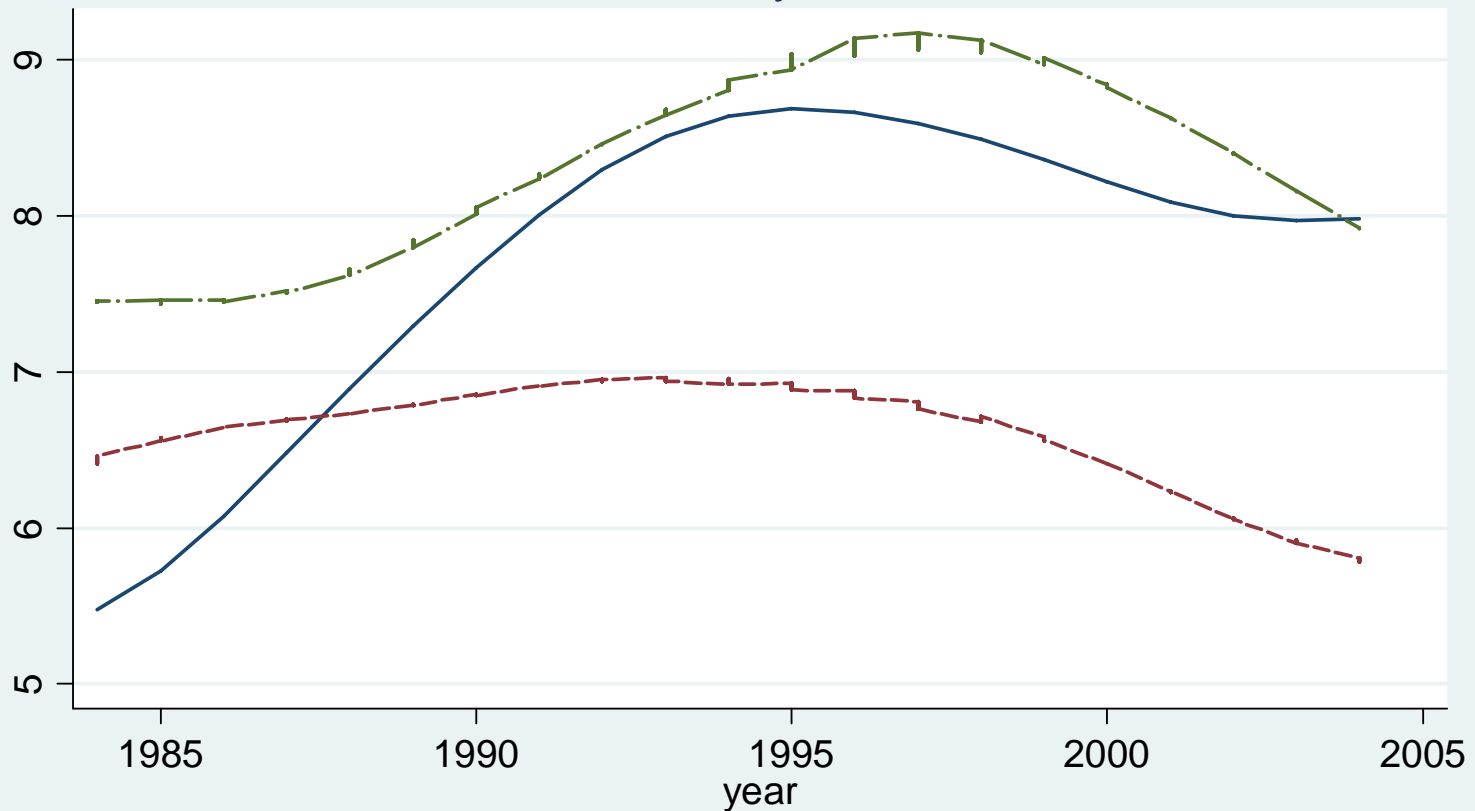
- Same level of investment generates 1/3 to 1/2 of growth in Asia
- Look beyond conditions for raising investment levels

(iii) policy and governance matters a great deal for growth –

- accounts for between 25% and 50% of growth difference with other regions
- The policy and governance gap with other regions has narrowed

Risk Perception

International Country Risk Guide Index



Lessons Continued

(iv) disadvantages from geography and resource curse accounts for one third of the gap of growth with LDCs

- Nearly 40% of Africans live in land-locked countries
- 90% of SSA exposed to Tropical disease burden
- Fragmentation – A typical African Country has 4 neighbors
- More than a third of SSA countries subject to the potential resource curse

(v) trading partners' growth important for African growth- suggests

- Importance of export-led growth
- focus on competitiveness;
- and reducing barriers to trade (esp. behind the border constraints)

Lessons Continued

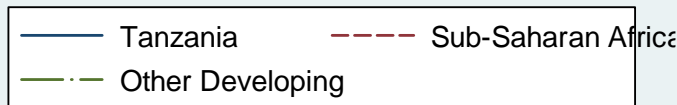
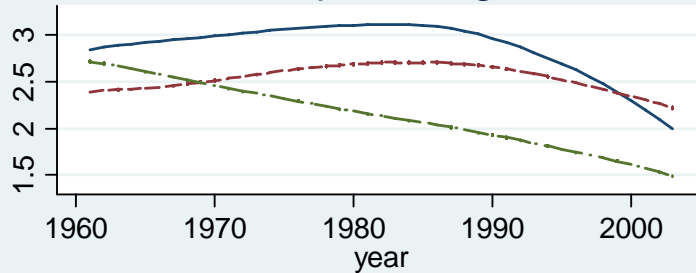
(vi) Difference in Demography a major factor behind growth difference

- **Difference in pop growth rates – the arithmetic effect**
- **Life expectancy a major predictor of growth difference with other regions and has gotten worse with HIV/AIDS**
- **Age dependence a big drag on growth –**
 - **More mouths to feed than hands to cook**
 - **fiscal and private spending burden**
 - **Youth unemployment a time bomb but can be an engine of growth**

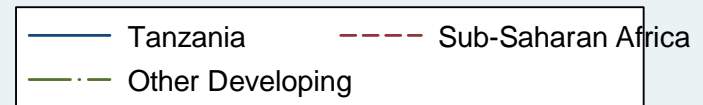
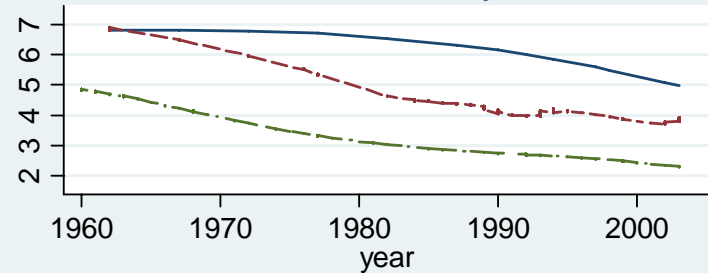
Demographic Challenges

Demographic Indicators

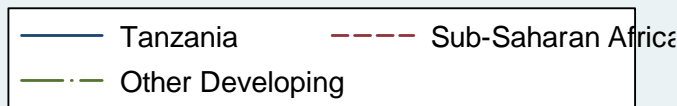
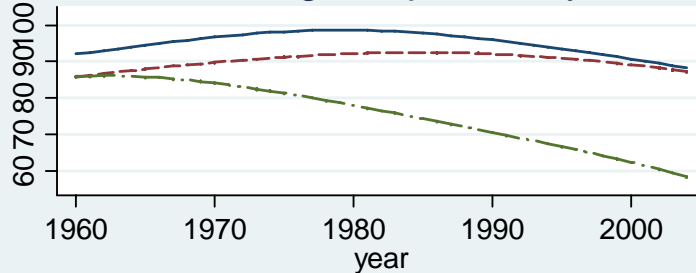
Smoothed Population growth rates



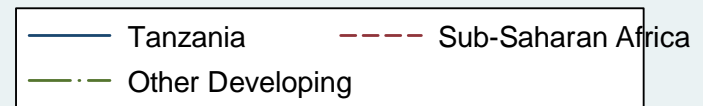
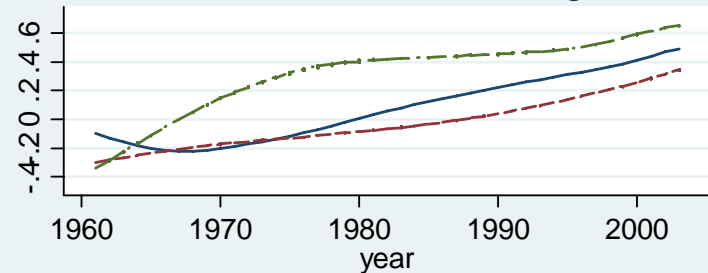
Smoothed Fertility rates



Smoothed Age Dependency Ratio



Smoothed Potential labor force growth rates



Breaking out of the low growth syndrome- Daunting but a real possibility

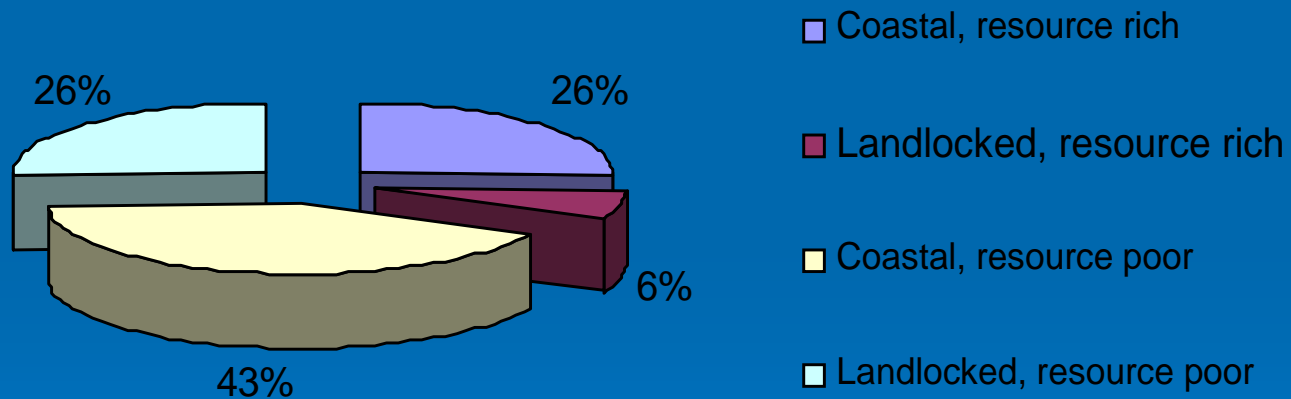
- **Asia's phenomenal growth experience instructive**
- **Mauritius, Botswana and Seychelles, have done it and so have 10 other African middle income countries**
- **Since 1995, more than a third of the countries in SSA are growing at rates over 5 percent**
- **Can take advantage of being a late starter –lessons from success and ICT**
- **But not underestimate the challenges of steep competition from emerging economies**

Three key questions

- (1) what are the opportunities and hence, options, for growth available to the diverse range of African countries?
- (2) what are the major constraints to exploiting these opportunities? and
- (3) what are the strategic choices to be made by African governments and their partners to exploit these opportunities?

Distribution of Opportunities

**Figure 3.1: Sub-Saharan Africa
Geographical Distribution**



Diverse endowments present different opportunities for export-led growth

- **Manufactured Export-led growth**
 - the Asian model for coastal countries
- **Natural resource-based equitable growth**
 - the Botswana model for resource-rich exporting countries.
- **Natural resource-based agricultural export diversification and industrialization**
 - The Chilean model of agribusiness and the Malaysian model of agro industrialized export
- **Labor export and high value service sector for landlocked** – the Indian model

Critical areas of action

The Four Big “I”s

- Improving the investment climate
- Infrastructure: Embarking on a “Big Push” in investment
- Innovation for increasing productivity
- Institutional capacity

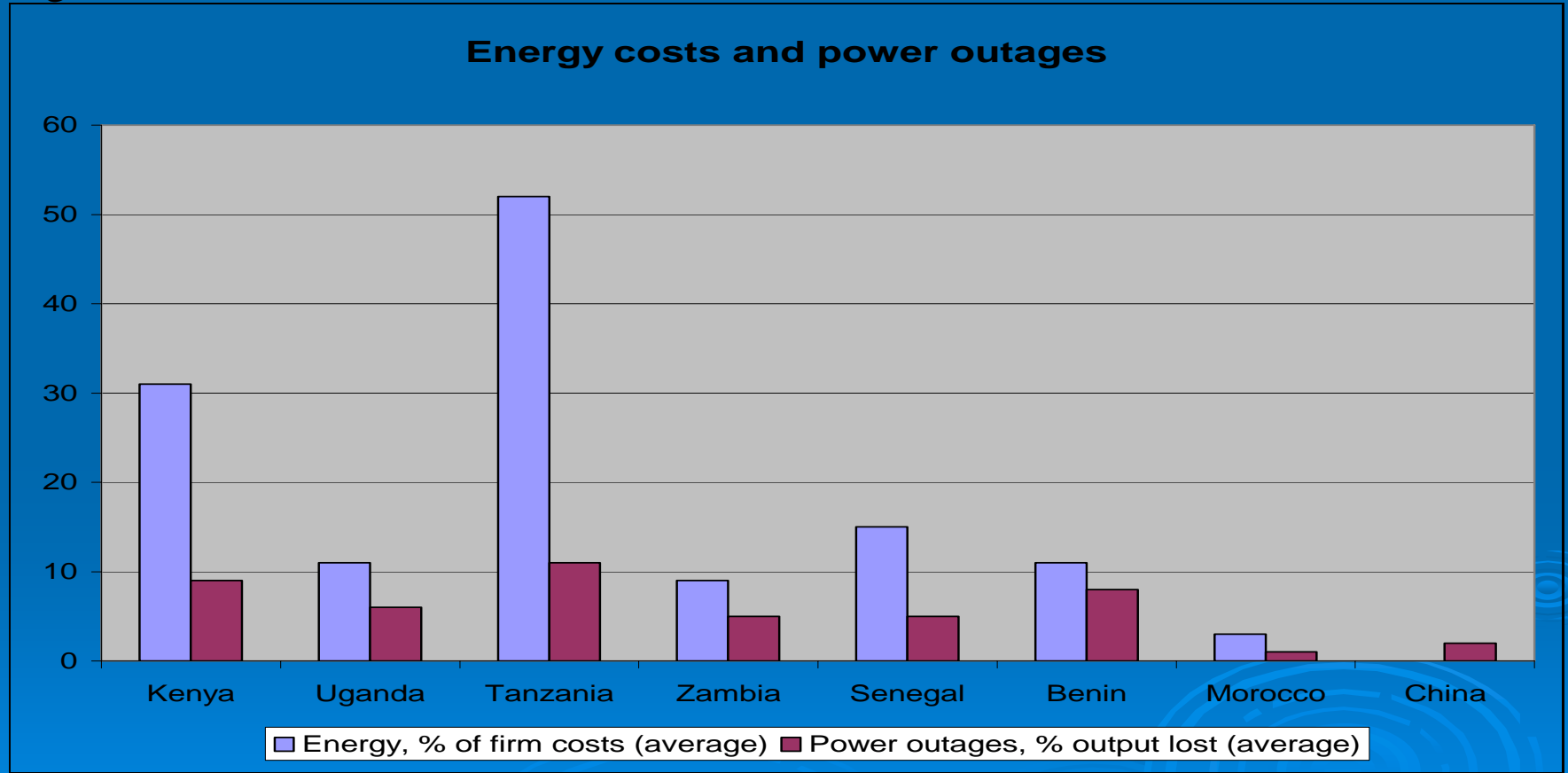
Investment Climate – Costs of doing Business

Energy and Transport comprise the highest components of Indirect Costs in Kenya



Energy Costs and Power Outages

Figure 3.3



Source: World Bank Enterprise Surveys, 2001-2005

Investment Climate – A Menu of Actions

- **Mega focus on reducing indirect costs to firms**
 - Software issues – mainly policy environment issues
 - Hardware issues - mainly infrastructure related
- **But also reducing and mitigating risk**
 - particularly affecting *security of property* – related to crime, political instability, contract enforcement & corruption.
- **Target both foreign and local investors**
 - For local – remittances and reverse capital flight
- **Development of cohesive investment areas**
 - regional collective good reputation (peer pressure), policy coordination and connectivity

Infrastructure: A Big Push necessary to make a difference

- **Particular focus on Landlocked countries**
 - which host nearly 40% of the African population.
- **A regional approach to coordinate cross-border infrastructure investment, management, and use**
 - e.g. power pooling in Southern Africa; cross country pipeline in West Africa
- **Enhanced regulatory capacity**
 - efficient use and maintenance of assets
- **Promote private-public partnerships –**
 - combine public investment in infrastructure assets and
 - operational efficiency of private management
- **Clustering for cost-effective investment & delivery of services**

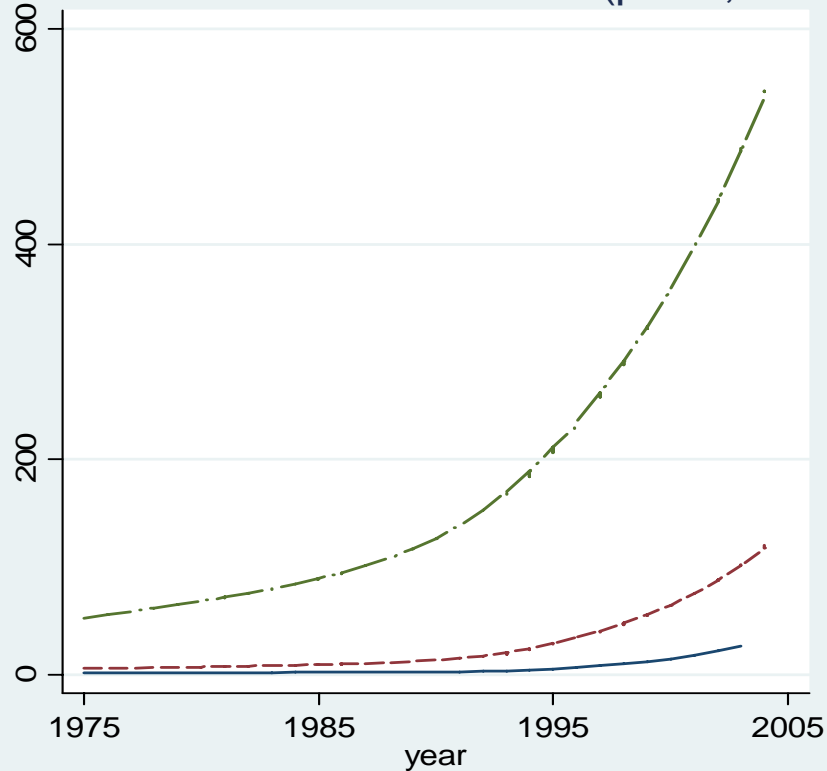
Innovation Key for Productivity Growth and Competitiveness

- **Opportunity to leap-frog –**
 - technology a global public good
 - exploit the advantages of a late starter
- **ICT is now the main technological driver for productivity growth**
 - *Investment in ICT* improves competitiveness
 - *Investment in higher education* boosts competitiveness
- **Hence Investment in Higher Education and in ICT are key parts of the growth agenda**

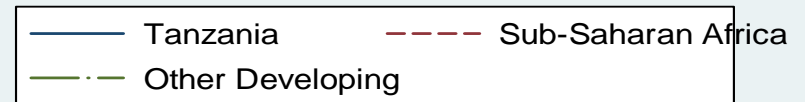
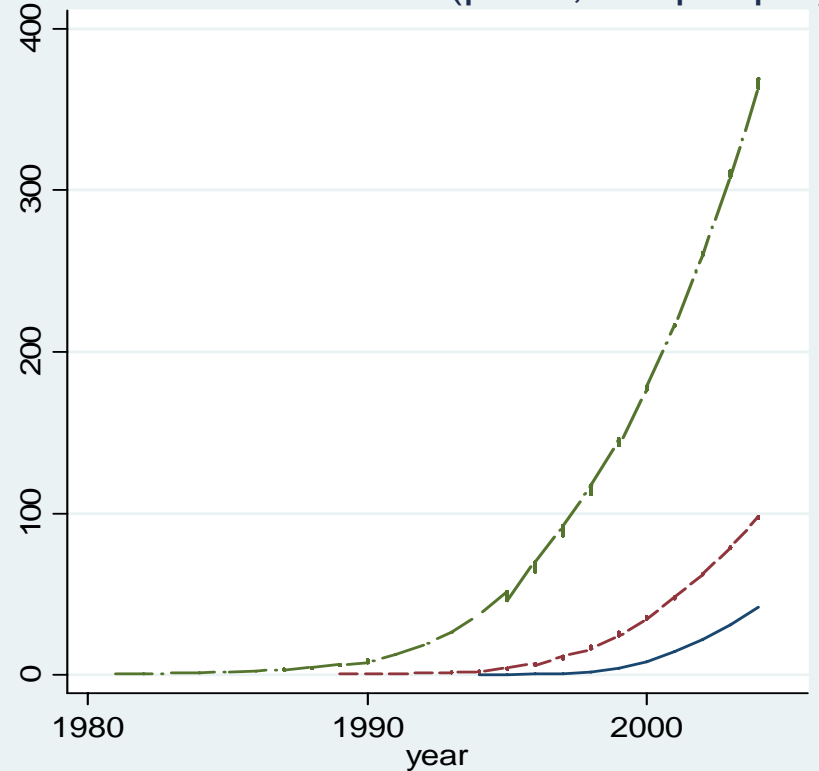
ICT Access

ICT

Fixed line and mobile subscribers (per 1,000 people)



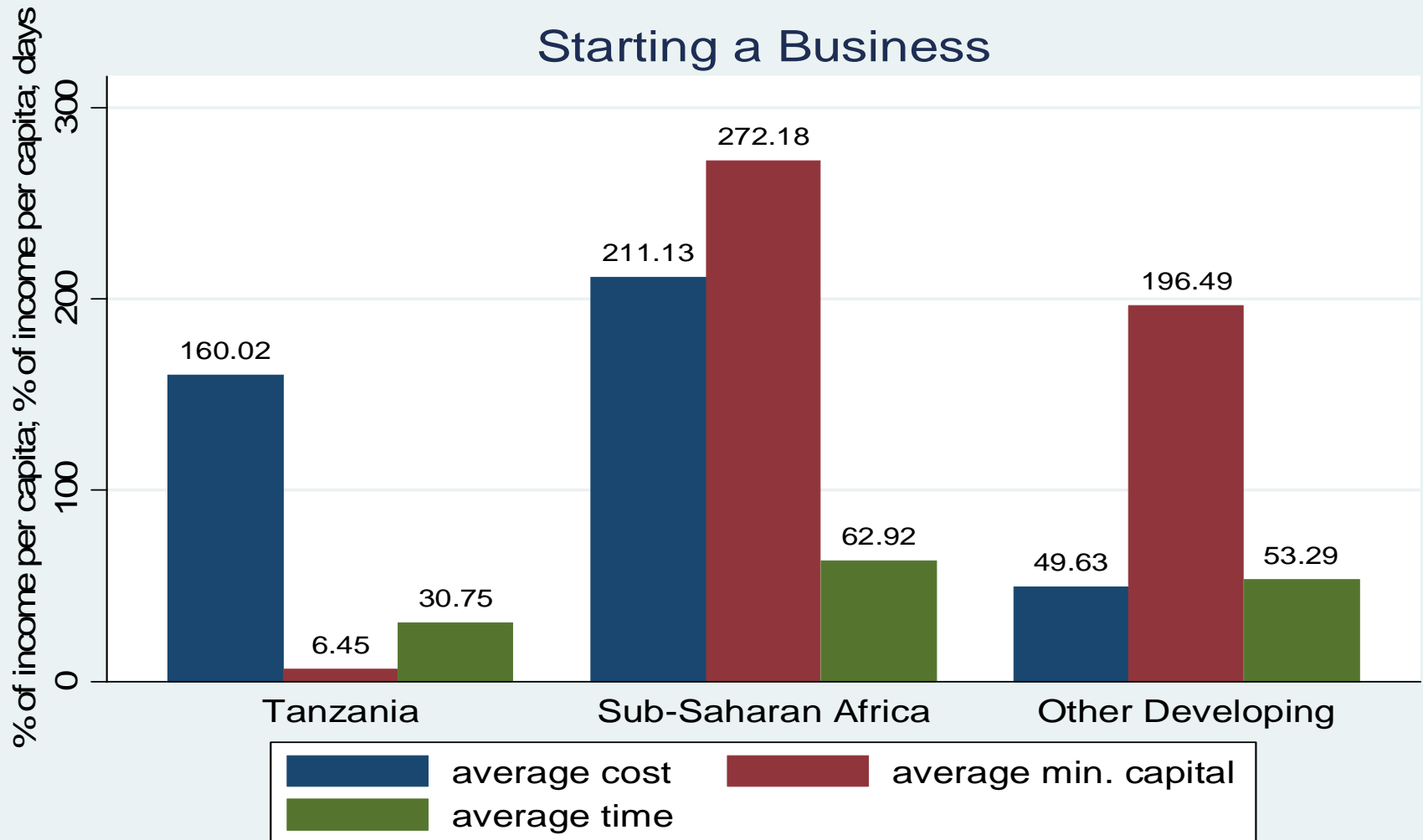
Mobile subscribers (per 1,000 people)



Institutional Capacity Priority Areas

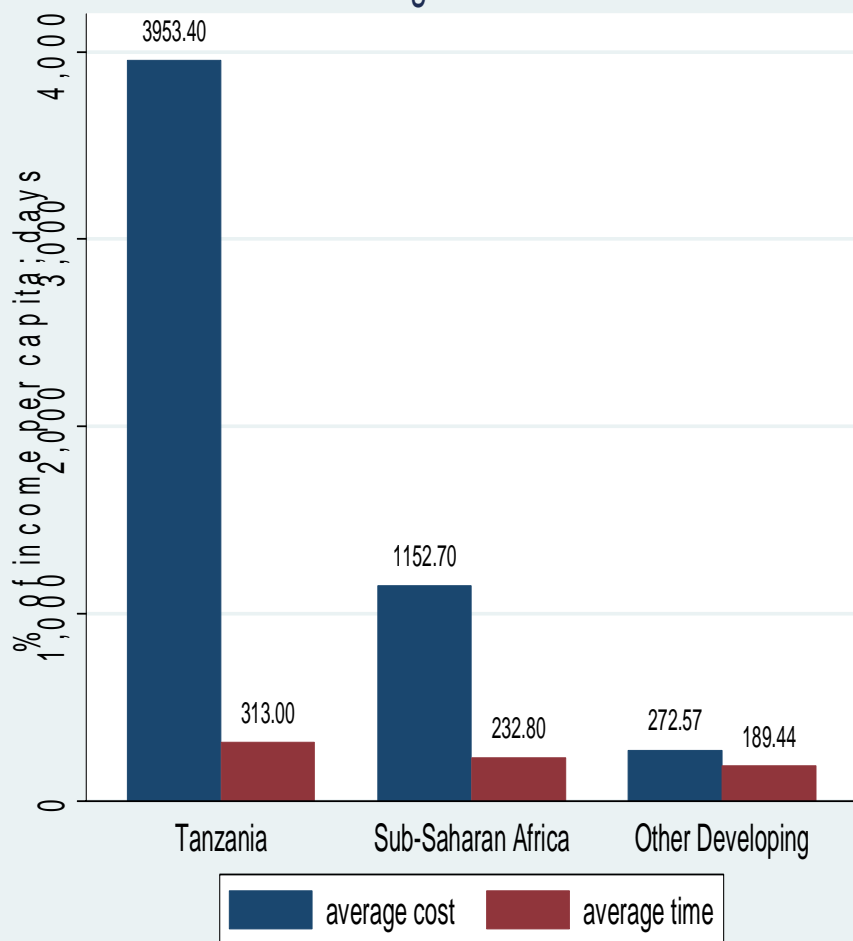
- **Enforcement of Contracts** e.g. commercial courts
- **Exercise of voice for scrutiny of public policy and action** – civil society, media and parliament
- **Enhancing Revenue Transparency** in resource rich countries – e.g. EITI
- **Prevention of corruption as a country-driven agenda** – incl. checks & balances

Doing Business (2003-2006)



LICENCING & CONTRACT ENFORCEMENT

Dealing with Licences

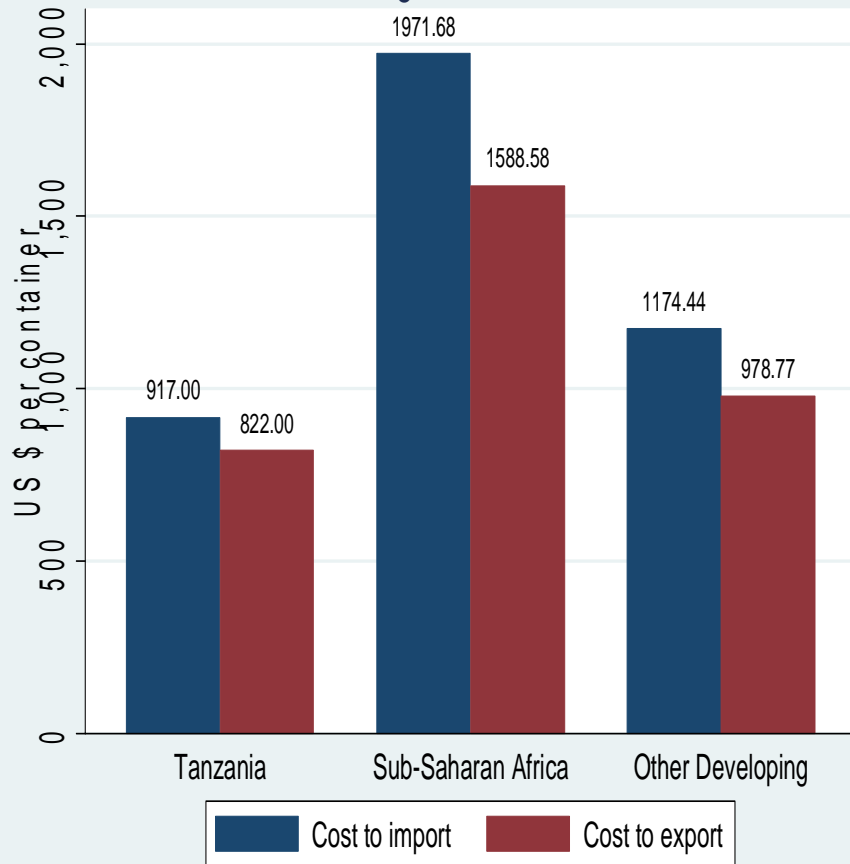


Enforcing Contracts

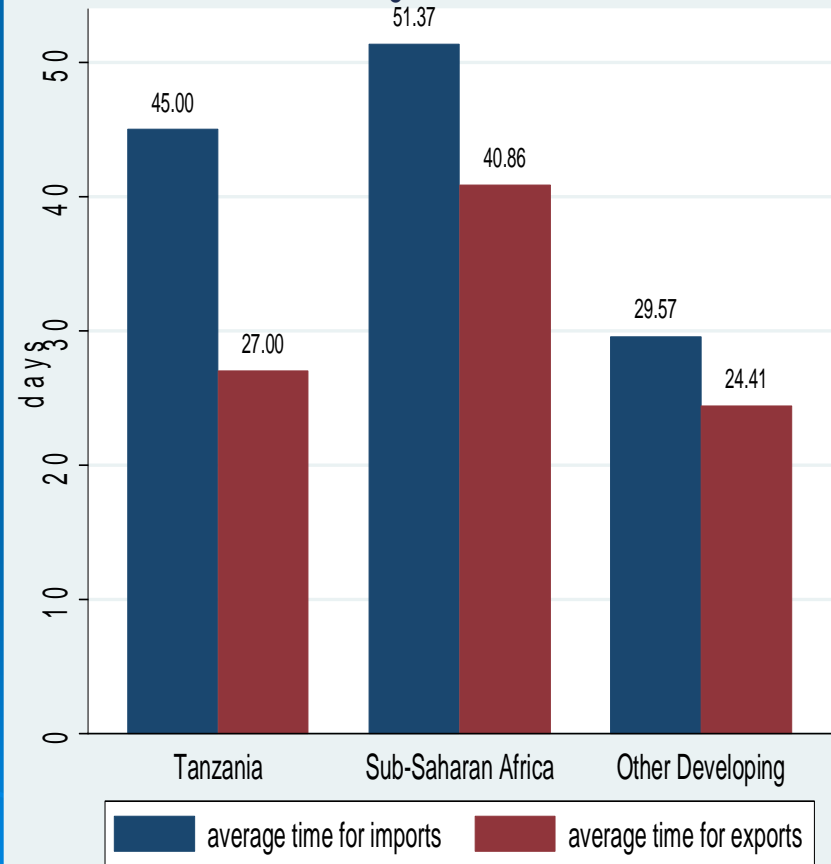


Trading costs

Trading Across Borders



Trading Across Borders



5 Key messages to Africans

- **(i) First a message of hope: the development challenges Africa faces are daunting but not insurmountable.**
 - Asia's and even African success instructive;
 - advantage of late starters
- **(ii) Africans will have to shape their own destiny – and this includes all Africans wherever they are in the world.**
 - taking the lead but more importantly to be creative, bold and decisive
 - make this an inclusive undertaking across all stakeholders.
- **(iii) Unorthodox approaches can engender results – See East Asian experiences.**
 - Greater focus on government errors of omission (what governments have not done to spur development)

Key Messages CONT'D

- **(iv) Leadership has a defining role in achieving success – putting a huge weight on how leaders are chosen and more importantly how they are held accountable for results.**
- **(v) Need for collective action to spur good reputation, agglomeration economies and provide regional public goods**

2 Key Messages to Development Partners

(i) More and better aid

- **Critical to close the widening infrastructure gap and address most pressing human development needs.**
- **Progress in fulfilling the Gleneagles promise has been slow and needs new vitality**
- **Look for innovative public-private partnerships to leverage private capital**

Message to Dev Partners contd

(ii) a supportive global trading environment

- **Unsuccessful Doha Round disappointing**
- **and suspension of the World Trade Organization talks will hit poor Sub-Saharan African countries hardest**
- **Need to get both back on rails**

In Conclusion...

- Each country situation is unique and requires specific analysis of constraints and opportunities.
- But can learn from similarities for *strategic directions*.
- Emphasis is on *energizing private investment* in the short to medium run and
- *fostering efficiency and competitiveness* as preconditions for export-led growth.
- International Support – ODA and conducive trading environment key complements to African drive to growth